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GERMANY'S TREND TOWARD ECONOMIC ISOLATION

by

JOHN C. DEWILDE

with the aid of the Research Staff of the Foreign Policy Association

UNDER the Hitler government Germany seems to be gradually drifting into economic isolation. Exports have continued to decline in value, and the gold and foreign exchange reserves of the Reichsbank have dwindled to insignificant proportions. Payments on external debt obligations have been progressively curtailed and are now almost entirely suspended. The foreign exchange secured from exports has become insufficient to pay for all the imports needed to carry out the Nazi program of economic recovery. Raw materials have been rationed, and strenuous efforts are being made to reduce Germany's dependence on imports through development of substitutes and more intensive exploitation of domestic supplies. The importation of all goods has been subjected to complete government control. Simultaneously with these developments the leaders of Nazi Germany have introduced a note of belligerency into the Reich's economic relations with other countries. They maintain that isolation has been forced on them by a hostile world, blaming Germany's present plight on the unwillingness of foreign countries to buy more German goods and to make a downward readjustment in the debt burden commensurate with the general decline in trade. Abroad these contentions have been received with scant respect. There Germany is generally held responsible for having aggravated, if not produced, its own difficulties. In foreign opinion the Nazis have needlessly provoked antagonism by their political methods, destroyed German credit by their debt policies, and promoted isolation by their predilection for autarchy.

Continuation of the trend toward economic isolation will necessitate a painful and fundamental readjustment of Germany's entire economic structure. German industry has always been greatly dependent on foreign markets as an outlet for its products and a source of supply for essential raw materials. The textile industry formerly exported a large part of its production, and still obtains 80 per cent of its raw materials abroad.[1] In 1931 steel rolling mills exported 38 per cent of their output, and the proportion of foreign to domestic orders in the machine industry was 56 per cent.[2] At the same time only 15 per cent of the iron ore needed during the last few years was supplied by domestic mines;[3] and all the tin and nickel, as well as almost all the copper and a quarter of the zinc have had to be imported.[4] For such key raw materials as rubber and mineral oils Germany is also dependent on the outside world. The paper industry usually exports about 20 per cent of its products and imports half of the necessary raw materials,[5] while the leather industry buys 57 per cent of its requirements in raw hides abroad.[6] The need for imports is not even confined to raw materials. This year's bad harvest will necessitate a larger importation of foodstuffs. Although the grain harvest, when the carry-over is added, appears sufficient to cover the domestic need of breadstuffs, there will be a considerable shortage of fodder. The hay crop, for instance, was 50 per cent below normal.[7]

The continued restriction of Germany's economic relations with the outside world will seriously endanger the measure of economic recovery which has been achieved in the Reich during the last two years. This recovery has been substantial. At the end of July 1934 German industry was producing 46 per cent more than in 1932 and only 10 per cent less than in 1928,[8] and about 15,090,000 people were engaged in regular occupations as compared with a record low of 11,470,000 in January 1933 and a peak of

1. For cotton, silk and jute Germany relies entirely on imports, while wool, flax and hemp it derives to only a small extent from domestic sources. Cf. *Vierteljahrshefte zur Konjunkturforschung*, 9th Year, No. 2, Part B, p. 133-4.

2. *Ibid.*, p. 118, 120.

3. *Ibid.*, p. 118.

4. "Germany as a Buyer of Non-ferrous Metals," *Weekly Report of the German Institute for Business Research*, Supplement, July 25, 1934.

5. *Vierteljahrshefte*, cited, No. 2, Part B, p. 131.

6. *Ibid.*, p. 138.

7. The harvest of wheat and rye is estimated at 12.1 million tons, as compared with 14.5 the previous year and an average of 11.4 in the period 1924-33. The potato crop, about 30 per cent of which is used for food and 40 per cent for fodder, is placed at 38 to 40 million tons, compared with a yield of 44.1 million in 1933 and 47 million in 1932. Cf. "Germany's Food Supply," *Weekly Report of the German Institute for Business Research*, September 26, 1934; also "Erntevorschätzung," *Wirtschaft und Statistik*, 1934, Nos. 15 and 17.

8. Cf. *Weekly Report of the German Institute for Business Research*, Supplement, September 5, 1934.

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18,810,000 in June 1929.[9] This business improvement has been confined entirely to the domestic market and seems attributable in large part to the work-creation measures carried out or promoted by the Nazi government. Production for internal requirements can now no longer be greatly expanded and may in some cases even be expected to decline owing to the gradual and inevitable diminution in governmental expenditure. The progress toward recovery is therefore likely to be checked unless Germany can regain the extensive foreign market its products once enjoyed. The threatened shortage of essential raw materials constitutes an even greater obstacle to the success of the recovery program. The restrictions placed on the importation and use of such materials appear already to have brought about some decrease in the rate of economic improvement.[10] A shortage will probably be felt only gradually, for by the early summer of 1934, before the restrictions became effective, relatively large stocks of imported raw materials had been accumulated[11] and some replenishment of reserves from foreign sources has since been permitted. Yet, unless in the long run some way can be found to expand exports and thereby assure the supply of essential imports, German economy may be badly shaken. Whether such a development would have any effect on the stability of the Hitler government is difficult to foresee. During the World War the German people endured extraordinary privations for the fatherland, and today, under the almost Spartan discipline prevailing in the Third Reich, they are probably capable of bearing sacrifices not likely to equal those of the war period. Nevertheless, an economic reverse might impair the prestige and strength of the Nazi régime.

The outside world, too, would suffer if the Reich should continue on the path of greater economic self-sufficiency. Next to the United States and Great Britain Germany offers the most extensive market for the world's goods. In 1929 it absorbed foreign products to the value of $3,203,000,000, an amount which by 1933 dropped to $996,000,000.[12] The Reich's central position in Europe is such that a check in its economic improvement would react unfavorably on neighboring countries, and German purchases of raw materials are so large that their considerable curtailment would have serious repercussions on overseas countries.[13] Moreover, throughout Europe and America are scattered many holders of German bonds and securities who can hope to salvage something from their investments only if Germany succeeds in so expanding its exports as to obtain the necessary foreign currency for transfer of debt payments. These debts have not been repudiated, for debtors continue to make payments in marks; but the transfer, with few exceptions, has been suspended on the plea that exports have not brought in sufficient foreign exchange.

REGULATION OF FOREIGN DEBT PAYMENTS, 1931-32

The source of Germany's present difficulties must be traced back over a number of years. Until the middle of 1931 the Reich was required to meet heavy reparation obligations, but the attendant drain on its resources was compensated by a great influx of foreign capital. In the period 1924 to 1930 foreigners invested so much money in Germany that the latter had no difficulty in transferring reparation payments aggregating 10.3 billion marks, and was even enabled to defray an import surplus of 6.3 billion and increase its holdings of gold and foreign exchange by 2.1 billion.[14] The financial crisis precipitated in the summer of 1931 by wholesale withdrawal of foreign short-term credits[15] put an end to the system under which ultimate payment of reparation had merely been postponed by borrowing abroad. The German people, although relieved of further reparation payments,[16] were left saddled with the huge debt incurred after 1923. At the same time the complete cessation of foreign lending compelled the Germans to face the arduous task of meeting their debt obligations entirely out of their own resources.

At the end of July 1931 the total foreign debt amounted to no less than 29.7 billion marks.[17] The major part was owed by industry, banks and other private borrowers, the balance by German states, municipalities

9. In addition some 730,000 were reported employed in the labor service, as emergency farm help, and as welfare and relief workers. Cf. *Weekly Report of the German Institute for Business Research*, September 12, 1934. The average day's work in industry also rose from 6.69 hours in January 1933 to 7.64 in May 1934. Cf. *Germany's Economic Development during the First Half of the Year 1934*, Reichskreditgesellschaft, (Berlin, 1934), p. 24.

10. In August the value of industrial production fell for the first time since recovery set in, the index dropping to 86.6 from 88.8 in July. Textile production was 15 per cent lower than in July. *Weekly Report of the German Institute for Business Research*, Supplement, October 10, 1934.

11. At the end of June the textile industry was reported to have a raw material supply sufficient for 4-5 months and, in addition, finished and semi-finished goods enough to last 1½-2 months. In the paper industry the raw material reserve was said to suffice for 10-12 months, and in the leather industry for 5 months. Enough iron ore was on hand to satisfy the demand for 9 months, and the reserves of other ores were also reported to be rather large. Cf. *Vierteljahrshefte*, 9th Year, No. 2, Part B, cited, p. 107, 119, 134, 138.

12. In old gold dollars. Cf. League of Nations, *Review of World Trade*, Geneva, 1934, p. 18.

13. Germany absorbs the following percentages of the world's exports of important raw materials: cotton, 11 per cent; wool, 15.6; rubber, 4.8; iron ore, 26.7; copper, 18; gasolene, 11.2; coffee, 9.5; raw tobacco, 12.4; soya beans, 39.1; and copra, 16.4. Cf. *Vierteljahrshefte*, cited, 9th Year, No. 2, Part A, p. 82.

14. "Report of the Committee appointed on the Recommendation of the London Conference," August 18, 1931, *The Economist* (London), Supplement, August 22, 1931.

15. M. S. Wertheimer, "The Financial Crisis in Germany," *Foreign Policy Reports*, March 2, 1932.

16. *Ibid.*; also "The Lausanne Reparation Settlement," *Foreign Policy Reports*, November 23, 1932.

17. Cf. Appendix.

and the central government.[18] Some 10.7 billion marks represented long-term loans and 13.1 billion, short-term debts.[19]

STANDSTILL AND THE SHORT-TERM DEBTS

The withdrawal of as much as 3.5 billion marks in short-term credits by the end of October 1931[20] made it necessary to adopt regulations safeguarding the mark against collapse and providing for a more orderly repayment of debts. This was achieved in part by the so-called "standstill" agreements in which foreign banks undertook to maintain their short-term credits in Germany, and in part by foreign exchange restrictions designed to prevent the unauthorized export of capital.

The original standstill agreement concluded between foreign banks[21] and their German debtors was put into effect on September 1, 1931 for a period of six months. Since that time it has been renewed every year at the end of February.[22] The standstill was not equivalent to a moratorium, for gradual reduction in the principal of existing credits was permitted and transfer abroad of interest payments and other charges guaranteed. The standstill debt decreased from 6.3 billion marks in July 1931 to 4.1 billion at the end of February 1933.[23] The decline of German foreign commerce accounted for much of this diminution, since a large part of the standstill credits were used to finance imports and exports and accordingly contracted with the shrinkage in trade.[24]

The standstill agreements covered only 6.3 billion of the total short-term debt. The remainder was placed by the German government under the regulation of the Foreign Exchange Control Offices. Debtors were required to pay interest and amortization charges into "blocked mark" accounts which creditors could not transfer abroad. These marks could be reinvested for a five-year period in German bonds, real estate or other securities, but the yield on such investments was not convertible into foreign currency. They could also be used to pay for German exports, but in general no more than 25 per cent of the purchase price was allowed to be met in this way, unless the importer could prove that he would be able to buy more goods if permitted to pay a greater percentage with blocked marks. Despite the limitations placed on the liquidation of the non-standstill debt, Germany's obligations on this account shrank from 6.8 billion marks in July 1931 to 4.6 billion at the end of February 1933.[25]

THE LONG-TERM DEBT SERVICE

While interest and amortization charges on German bonds issued abroad were regularly transferred during 1931 and 1932, other long-term obligations were treated on the same basis as the short-term debt not regulated by the standstill agreements. Interest and dividends on direct investments in Germany, as well as proceeds from the sale of property or German securities, could not be converted into foreign currency, but had to be paid into blocked mark accounts. There were several kinds of blocked marks, depending on their origin and use, but they all sold at a discount from the price of the free mark, *i.e.*, the mark which could be converted into foreign currency at the official exchange rate. The marks which could be employed in partial payment for German exports or for travel in Germany brought the best prices.[26]

The total long-term debt was only slightly diminished during 1931 and 1932. At the end of February 1933 it amounted to 10.3 billion marks—a reduction of only 400 million since July 1931. This figure contrasted sharply with a decrease of 4.4 billion in the short-term indebtedness.[27]

GROWING TRANSFER DIFFICULTIES

The transfer of debt payments in 1931 and 1932 was made possible by the development of a favorable trade balance which furnished the necessary foreign exchange. After initial small export surpluses in 1929 and 1930, exports exceeded imports by 2,872 million marks in 1931 and 1,072 million in 1932. Although exports fell 53 per cent from 1929 to 1932, imports declined no less than 66 per cent. The slump in German purchasing power and the imposition of import restrictions greatly reduced the volume of imports, while the value dropped even more owing to the sharp and continuous decline in the prices of imported raw materials. Foreign sales were maintained at a higher level, because prices obtained for exported goods fell less than

18. Governmental bodies took a large share of only the long-term loans. Out of 9,545 million marks in long-term loans floated abroad from 1924 to the middle of 1931 the Reich government took 25.2 per cent in the form of the Dawes and Young loans; states and municipalities, 20.1; public utilities, 14.5; municipal banks and similar institutions, 2.6; and private borrowers, 37.6. Cf. "Report of the Committee appointed on the Recommendation of the London Conference," cited.

19. Cf. Appendix. About 5.9 billion was unclassified.

20. "Report of the Young Plan Advisory Committee," *The Economist*, Supplement, January 2, 1932.

21. Included were banking groups in the Netherlands, Great Britain, the United States, Sweden, Norway, Denmark, Italy, France, Switzerland, Belgium and Czechoslovakia.

22. The texts of the agreements have been published by the Reichsbank, and reports on each renewal have been issued by the Foreign Creditors' Standstill Committee. The short-term foreign indebtedness of municipalities and other public bodies, amounting to 247 million marks, was regulated in a separate standstill agreement which was concluded on April 9, 1932, and extended for a year on March 15, 1933 and 1934.

23. Cf. Appendix.

24. Cf. the periodic reports of the German Debt Control Office in *Wirtschaft und Statistik*, 1932, No. 16, 1933, Nos. 9 and 16.

25. Cf. Appendix.

26. By June 1933 there were no less than six varieties of blocked marks. For a discussion of their origin and employment, cf. Franz Furth, "Sperrmarken und Sperrmarkenhandel," *Der deutsche Volkswirt*, June 30, 1933.

27. Cf. Appendix.

those paid for imports, and the drastic deflation carried out by the government of Chancellor Brüning increased the ability of German products to compete on foreign markets.

By the end of 1932, however, it had become evident that the heavy export surplus could not be maintained. The depreciation of sterling was already hampering German exports, and in 1933 the decline in the dollar created additional obstacles to the sale of German goods. At the same time the first signs of economic recovery in Germany forecast an increase in the volume of imports in the not too distant future.

FOREIGN DEBTS AND TRADE UNDER THE HITLER REGIME

When the National Socialists came to power in January 1933, their political philosophy did not appear favorable either to the development of foreign trade or to the continuation of debt payments. In the rank and file of the party there had been much talk of the desirability of *Autarkie,* a slogan generally interpreted to imply greater independence from "international finance capital" and foreign trade. In the opinion of most Nazis the post-war influx of foreign capital had converted Germany into a "colony" dominated by foreign capitalists, and the financial crisis of 1931 had demonstrated convincingly the necessity of liberating the country from its excessive reliance on outside capital. The more socialistic elements, moreover, had written into the party program a point condemning "interest slavery," which seemed susceptible of application to foreign investments in Germany. As for foreign trade, the Nazis had never completely denied its usefulness, but had freely expressed their intention to organize German economy on a national basis in order to make it at least independent of foreign foodstuffs and to insulate it against the repercussions of economic crises in other lands.

During the past year-and-a-half the National Socialists have endeavored to carry out their idea of the primacy of national over world economy and have subordinated foreign trade and debt payments to their program of organizing and stimulating domestic economic activity.[28] In the agricultural sphere they have gone far to insure the supply of foodstuffs from domestic sources. Nevertheless, the new rulers of Germany have gradually awakened to the need for foreign trade and credit. As the progress of domestic recovery required the importation of foreign raw materials essential to German economy, it became clear that these materials could be obtained only with the proceeds from exports.

The unfavorable trend in the German trade balance, already evident before Hitler's advent to power, continued. The export surplus fell to 668 million marks in 1933 and finally gave way to an import excess of 214 million in the first half of 1934. At the same time the gold and foreign exchange holdings of the Reichsbank shrank rapidly, dropping to but 78 million marks—2.1 per cent of the amount of outstanding Reichsbank notes—on July 31, 1934.[29]

TRANSFER MORATORIA

As the Reichsbank's reserves declined, the German government progressively curtailed payments on both the long-term and short-term debt. The first step came in the spring of 1933 after the Reichsbank, on March 4, had impaired its own resources by repaying the $70,000,000 balance of the rediscount credit which foreign banks had extended in June 1931 and which probably could have been in large part renewed.[30] In a conference held at Berlin from May 28 to June 2, 1933 the Reichsbank acquainted representatives of foreign creditors with its foreign exchange difficulties and its determination to declare a transfer moratorium. On June 8 the president of the Reichsbank, Dr. Hjalmar Schacht, announced that, beginning July 1, German debtors would be required to pay their obligations into a specially created Conversion Office (*Konversionskasse*), and that transfer of amounts thus paid would be permitted only as foreign exchange became available.[31] The standstill credits, as well as debts owed by the Reichsbank and Golddiskontbank, were excepted. In applying the transfer moratorium the Reichsbank made extensive concessions. Dr. Schacht agreed to transfer interest payments on the Young and Dawes loans, both of which are direct, prior obligations of the Reich government, and amortization charges on the Dawes loan. In addition, the transfer of 50 per cent of all interest charges, although not exceeding 4 per cent per annum, was permitted.[32] For the remainder the Conversion Office issued non-interest-bearing scrip to foreign creditors.[33] Subsequently the German Golddiskontbank arranged to purchase this scrip in foreign markets at 50 per cent of its face value, thus assuring creditors the payment

28. M. S. Wertheimer, "Economic Structure of the Third Reich," *Foreign Policy Reports,* September 26, 1934.

29. Cf. Appendix.

30. *The Economist,* April 8, 1933, p. 744.

31. Cf. *Gesetz über Zahlungsverbindlichkeiten gegenüber dem Ausland,* approved June 9, 1933, in W. Hoche, *Die Gesetzgebung des Kabinetts Hitler,* hereafter cited as Hoche, *Gesetzgebung* (Berlin, Franz Vahlen, 1933), p. 437-9.

32. With the exception of the Dawes loan, the transfer of amortization payments was suspended. For the regulations regarding the discharge of amortization obligations, cf. *Der deutsche Volkswirt,* August 18, 1933, p. 1314.

33. For the final terms of the moratorium announced by the Reichsbank on June 30, cf. *The Economist,* July 8, 1933, p. 67; also *Der deutsche Volkswirt,* July 7, 1933, p. 1138-9.

of 75 per cent of their interest. The scrip of Swiss and Dutch creditors, however, was redeemed in full, ostensibly because their governments undertook to import a corresponding additional amount of German goods.[34]

In December 1933 the Reichsbank took measures to curtail the debt service still further beginning with the new year. On December 18 it approved a new moratorium cutting the direct transfer from 50 to 30 per cent, thus leaving 70 per cent to be covered by scrip. Since the latter continued to be redeemed at 50 per cent, the new regulations reduced the actual transfer from 75 to 65 per cent. After the British and American governments had both protested against this peremptory treatment of creditors and the alleged discrimination in favor of Swiss and Dutch bondholders, the Reichsbank made sweeping concessions. In negotiations with creditors' representatives terminating on January 31, 1934 it agreed, although not unequivocally, to deprive the Swiss and Dutch of their special treatment after June 30 and in the meantime to guarantee that the scrip issued for 70 per cent of the debt payments would be redeemed at 67 instead of 50 per cent.[35] This concession actually raised the total transfer from 75 per cent during the second half of 1933 to 76.9 per cent in the first half of 1934.

In order to regulate the transfer question after June 30, the Reichsbank called creditors to a conference in Berlin on April 27, 1934. The Reichsbank pleaded for a complete moratorium, pointing to its continually declining reserves. The negotiations were long drawn out and the creditors acknowledged that transfer difficulties merited some concessions on their part. At the close of its final session on May 29, the conference issued a communiqué announcing the terms on which the Reichsbank would allow transfer of regular dividend and interest payments maturing from July 1, 1934 to June 30, 1935. Under these terms payments continue to be made into the Conversion Office, and creditors who do not wish such amounts merely to stand to their credit can accept one of the following alternatives in final discharge of their claims:

1. Cash payment in foreign currency of 40 per cent at any time commencing six months after maturity.

2. Funding bonds, bearing 3 per cent interest, issued by the Conversion Office and maturing on January 1, 1945. Payment and transfer of interest and amortization charges (the latter amounting to 3 per cent per year) are guaranteed by the German government. Funding bonds can also be sold at 40 per cent of their face value.

In both cases the offer of 40 per cent payment was made subject to withdrawal on thirty days' notice whenever the Reichsbank could not afford to part with the necessary foreign exchange;[36] and on November 3 the Reichsbank did in fact withdraw the offer.[36a] The transfer has therefore been completely suspended.

The Reich continued its special treatment of Swiss and Dutch creditors, guaranteeing them the transfer of all dividend and interest payments up to 4½ per cent.[37] The Swiss and Dutch governments both threatened to sequester the money paid for imports from Germany unless the debt claims of their nationals were satisfied in full; and the Reich realized that this threat could be made good, because each of these countries regularly buys much more from Germany than it sells.

Until July 1, 1934 the Dawes and Young loans had been excepted from transfer restrictions. In a note transmitted to all interested governments on June 15, 1934 Germany announced, however, that from July 1 until further notice no foreign exchange would be available for the service of these loans, both of which had been issued in accordance with intergovernmental agreements.[38] This action aroused sharp protests from all countries in which the loans had been floated. The European states[39] succeeded in inducing the German government to continue payment on the loans; owing to their unfavorable trade balance with Germany, they could impound the proceeds of German sales within their borders and pay bondholders out of these amounts. The American government was powerless to enforce its protest in a similar way, for the trade balance with Germany is heavily in favor of the United States. Although the Reich intimated that it was willing to make concessions in return for larger exports to the United States,[40] the State Department re-

34. *The Economist*, November 4, 1933, p. 864. The transfer agreement with Switzerland was concluded on October 7; that with the Netherlands on October 28.

35. *Frankfurter Zeitung*, February 1, 1934.

36. For the complete terms of the moratorium, cf. text of the communiqué issued at the close of the transfer conference, *Frankfurter Zeitung*, May 31, 1934. A discussion of the terms and a brief description of the conference may be found in Institute of International Finance, *Bulletin No. 72*, September 4, 1934.

36a. *New York Times*, November 4, 1934.

37. For the transfer agreements signed with Switzerland and the Netherlands on July 26 and August 31, 1934 respectively, cf. the *Frankfurter Zeitung*, July 28 and September 1, 1934. The Reichsbank agreed to transfer interest over 4½ per cent, provided such sums were applied to amortization of the debt. Only one-half of that part of dividends exceeding 4½ per cent was to be transferred, and only three-quarters of dividends on securities of no par value.

38. The text of the note is found in Department of State, *Press Releases*, June 30, 1934, Weekly Issue No. 248. In this note the German government declared its readiness to discuss methods by which the transfer might be resumed.

39. In addition to Switzerland and the Netherlands, which secured transfer of all long-term debt payments, Great Britain, Sweden, France, Italy and Belgium obtained transfer agreements covering the Dawes and Young loans. Sweden also secured the Reich's agreement to continue service on the Kreuger loan of $125,000,000 in return for a concession reducing the interest rate from 6 to 4½ per cent. For a summary of all the agreements, cf. the *Frankfurter Zeitung*, September 30, 1934.

40. Cf., for example, the German note transmitted on June 15, State Department, *Press Releases*, cited, p. 443.

jected the thesis that the discharge of contractual obligations could be made dependent on the acceptance of German goods,[41] and apparently remained cool to offers of commercial negotiations.[42]

REDUCTION IN SHORT-TERM DEBTS

The short-term credits subject to standstill continued to enjoy more favorable treatment than the long-term debt.[43] Nevertheless, the Reichsbank obtained certain reductions in interest and a gradual suspension of direct repayments.[44] Indirect liquidation of debt claims continued. Debtors could be required to repay a certain portion of their credits in German currency. Although the amounts thus realized, known as registered marks, originally could be used only for internal reinvestment, the 1933 standstill agreement authorized creditors to sell them (at a discount) for tourist and travel expenditure and, when sanctioned by the Reichsbank, for payment of additional imports from Germany. At least 600 million registered marks had been sold in this way by September 1934.[45] Since most of these marks were used by foreign travelers to meet expenses in Germany which they formerly paid with foreign currency, the Reichsbank suffered a considerable loss of foreign exchange through this indirect method of repaying short-term credits.[46]

Despite the restrictions imposed on debt payments under the Nazi régime the total foreign indebtedness, according to German figures, decreased from 23.2 billion marks in February 1933 to 17.9 billion in May 1934—a decline of 5.3 billion.[46a] Of this phenomenal drop, however, some 3,4 billion is traceable to the depreciation of the dollar.[46b] The balance is attributable to the curtailment in short-term credits, the repatriation of bonds, and especially to the liquidation of blocked mark accounts.

STIMULATION OF ADDITIONAL EXPORTS

In addition to economizing its foreign exchange supply by curtailing service on the foreign debt, Germany has sought on the one hand to expand its exports and on the other to reduce its imports as far as possible.

In 1932 the so-called "additional export" procedure was introduced in order to counteract to some extent the export advantage obtained by other countries through the depreciation of their currencies. Under this procedure firms have been encouraged by subventions to export goods even at a loss. The money for the subsidies has been obtained from profits made in the purchase of: (1) blocked marks, or the mark equivalent of foreign balances frozen in Germany since the introduction of foreign exchange control; (2) scrip issued in accordance with the partial transfer moratorium effective from July 1, 1933 to June 30, 1934; and (3) German bonds on foreign markets. Blocked marks and scrip could be bought at a discount because both represented marks which could not be transferred abroad.[47]

The additional export procedure is exceedingly complicated. The exporter has been required to furnish the local foreign exchange office with adequate proof that he could not sell abroad except at a loss. The subsidy has been accorded in the form of a permit entitling the exporter to use part of his export proceeds for the purchase of scrip or blocked marks. These he has been able to buy at a discount and resell at their face value to the Debt Conversion Office. Alternatively, he has often been authorized to buy German bonds abroad with part of his foreign sales receipts. These bonds he has been able to sell at a higher price at home because the German corporations which issued them were willing to pay for the right to retire them at the depreciated prices prevailing on foreign markets. According to German figures the face value of the securities repatriated in this way from November 1931 to February 1934

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41. Note transmitted on June 27, 1934 to the German chargé d'affaires in Washington, *ibid.*, p. 444-8.

42. Cf. Washington dispatch, *New York Times*, September 17, 1934.

43. The application of a moratorium to short-term credits, which are used largely in financing current German trade, would have resulted in refusal to extend further credit, thus seriously hampering Germany's foreign commerce.

44. When the standstill agreement was renewed in February 1933, the interest rates on various categories of credits were lowered ¼ to ⅝ per cent, and on June 16, 1933 a further concession of ½ per cent was made. The 1933 standstill agreement permitted a reduction in credit lines of only 5 per cent, instead of the 10 per cent previously authorized, and upon renewal the following year provided for no decrease whatever. The gradual repayment of a certain proportion of credits which the Golddiskontbank had been required to take over and guarantee was stopped on October 1, 1933, in accordance with the interim agreement concluded on June 16; and further suspension of such payments was sanctioned in February 1934. Cf. *Report of the Foreign Creditors' Standstill Committee* (Berlin), February 17, 1933 and February 15, 1934; also *Der deutsche Volkswirt*, June 23 and July 21, 1933, p. 1073-4 and 1207.

45. The *Report of the Foreign Creditors' Standstill Committee* (Berlin), February 15, 1934, estimated that 304 million had been disposed of by the end of December 1933; while the *Frankfurter Zeitung*, "Belebung des Reiseverkehrs durch die Registermarken," September 11, 1934, recorded a further sale of about 300 million since February 28, 1934.

46. The loss of foreign exchange was not equal to the amount of registered marks used for travel, because the possibility of paying expenses with cheap marks undoubtedly attracted tourists who otherwise would not have gone to Germany.

46a. Appendix. The figures for May 1934 were submitted to the transfer conference held at Berlin in May, but have not been published. Some authorities consider the official debt estimates far too high and quote figures as low as 10 and 11 billion marks.

46b. *Wirtschaft und Statistik*, 1934, No. 5.

47. The discount of the former fluctuated in accordance with the demand; that of the latter remained stable until recently—as long as the Golddiskontbank stood ready to purchase it abroad at fixed prices. Foreign holders could obtain 50 per cent of the face value of 1933 scrip and 67 per cent of 1934 scrip. On August 30, 1934, however, the Golddiskontbank announced that, beginning September 15, it would no longer accept scrip at fixed prices but would thenceforth buy only at the market price and as its supply of foreign exchange permitted. This new policy reacted particularly to the disadvantage of American holders because they had been unable to sell their scrip owing to delays in registering it in accordance with the requirements of the American Securities Act. Cf. "Scrips-Ankaufsgebot zurückgezogen," *Frankfurter Zeitung*, August 31, 1934.

amounted to 549 million marks, although actually, in view of the depreciation of bond prices and foreign currencies, not more than 183 million marks in foreign exchange was used in the process.[48] In reply to foreign criticisms that the use of exchange for this purpose impaired the Reich's ability to transfer interest charges on the debt, the German government argued that the profit accruing from repatriations permitted exports which could not have taken place without a subsidy, and brought in far more foreign exchange than the purchase of the bonds had required.[49]

The stimulation of additional exports became extensive only in 1933, when according to German figures about a fifth of the goods sold abroad were aided by subsidies averaging about 25 per cent of the sales price.[50] During the current year the proportion of foreign sales coming under the additional export procedure is said to have reached 40 per cent.[51] To what extent exports will continue to be subsidized in this way is problematic. With the inauguration of the complete transfer moratorium on July 1, 1934, the supply of scrip was cut off. Presumably, however, the funding bonds and interest coupons which the Reichsbank may buy at a 60 per cent discount under the terms of the new moratorium can also be used to finance additional exports.[52] The Reich has been repeatedly urged to stimulate exports directly by devaluing the mark, but this course the German authorities resolutely oppose, holding that the attendant increase in the cost of imports and in the foreign debt burden would outweigh any benefits.[53]

The Reich has also sought to increase the sale of German products through the conclusion of trade treaties. A number of agreements, notably those negotiated with the Netherlands, France and Finland, did not expand Germany's markets but provided equality of treatment, abrogated recently imposed trade barriers, and furnished assurances against further restrictions.[54] Greater opportunities for German exports were created by agreements with Denmark, Hungary and Yugoslavia,[55] and by a protocol[56] terminating the nine-year-old tariff war with Poland.

THE DECLINE IN EXPORTS

All these measures failed to increase the value of exports or even to arrest their decline. In 1933 Germany's sales abroad were 15 per cent below 1932 levels, and in the first eight months of the current year they averaged 16 per cent less than in the previous year. The chief reason for this development was undoubtedly the difficulty of competing with goods cheapened artificially by the depreciation of foreign currencies such as the pound, the dollar and the yen.[57] The subsidies which accrued to German products through the additional export procedure were by no means sufficient to overcome this advantage. The character and direction of German export trade also created a number of difficulties. Over three-quarters of Germany's exports consist of finished products which have suffered more than any other category of goods from the increased protectionism of recent years and are generally among the last to experience any rise in turnover during a period of general trade recovery. The Reich's best customers, moreover, are countries such as the Netherlands, Belgium, France and Switzerland, which have not shared the economic improvement noticeable elsewhere and therefore have not recovered their former buying power.[58]

Rôle of the Boycott

While factors beyond Germany's control were primarily responsible for the continued drop in exports, the policies pursued by the German government probably contributed to

48. Cf. Statement issued by the Ministry of Economics, discussed in *The Economist*, February 17, 1934. The statement placed the total value of all bonds repatriated since November 1931 at 781 million marks.

49. Since June 30, 1934 the repatriation of bonds through the additional export procedure has been limited to cases in which payment for exported goods does not become due until twelve months after the sale. Cf. "Die Neugestaltung des Bondsgeschäfts," *Frankfurter Zeitung*, July 4, 1934.

50. "The Financing and Promotion of Exports in Germany," *Weekly Report of the German Institute for Business Research*, Supplement, September 12, 1934.

51. "Im Engpass," *Frankfurter Zeitung*, July 22, 1934.

52. The creditors are not unanimously in favor of continuing the additional export system. Only the short-term creditors have specifically endorsed it. Cf. Annexure to the *Report of the Foreign Creditors' Standstill Committee* (Berlin), February 15, 1934. On the whole, the system may be said to benefit both Germany and its creditors insofar as the "additional" exports really bring in a supply of foreign exchange which could not have been obtained without the subsidy. Critics have pointed out, however, that the burden of the subsidy could have been shifted from the creditor to the debtor. The latter might have been denied the right to benefit from the depreciation of the currencies of creditor countries and required to make his debt payment into the Conversion Office at gold parity. The excess marks thus turned in could then have been used for subsidies.

53. Cf. Speech by Dr. Hjalmar Schacht at the Leipzig Fair, *Frankfurter Zeitung*, August 27, 1934.

54. The commercial agreement with the Netherlands of April 27, 1933 and the subsequent treaty of December 13, 1933 granted German exports equality of treatment only. The commercial and quota agreements concluded with France on July 28, 1934 abolished most of the restrictions introduced by both countries early in 1934; while the treaty with Finland, signed March 24, 1934, assured Germany equal tariff treatment and certain fixed duties. Cf. *Reichsgesetzblatt*, 1933, II, p. 162-72 and 1056-70; *ibid.*, 1934, II, p. 421-716 and 140-57.

55. In a treaty signed on March 1, 1934 Denmark agreed to make a larger amount of foreign exchange available for the purchase of German products, especially finished goods; while Yugoslavia, in a treaty concluded on May 1, 1934, conceded Germany substantial tariff reductions. Considerably lower duties were also accorded by Hungary in an agreement signed February 21, 1934. Cf. *Reichsgesetzblatt*, 1934, II, p. 93-7, 111-4 and 301-32.

56. Signed March 7, 1934. *Reichsgesetzblatt*, 1934, II, p. 99-106.

57. In its *Weekly Report* of September 12, 1934, the German Institute for Business Research pointed out that, calculated in terms of gold, the German price level in June 1934 was 31.5 per cent and 34.1 per cent higher than the British and American, and 56.2 per cent above that of the Japanese. These percentages, however, exaggerate Germany's competitive handicaps, for the price levels compared include many purely domestic products.

58. In 1933 about 49.6 per cent of German exports went to countries which had experienced further economic retrogression or no improvement, 15.7 per cent to states which showed some slight recovery, and 21.7 per cent to countries which had greatly improved. Cf. *Vierteljahrshefte*, 1934, No. 2, Part B, cited, p. 151.

it. By August 1934 the general recovery program stimulating industry and agriculture had produced a rise of 11 per cent in the wholesale price level,[59] which further hampered exports. German import restrictions, especially against agricultural products, provoked retaliatory measures by foreign countries;[60] and Germany's treatment of Jews, Socialists and Liberals produced additional resistance to German goods. The effectiveness of the boycott, however, seems generally to have been overestimated. Actually the decline in the value of export trade since Hitler came to power has been much smaller than during the preceding years.[61] In volume there was only a diminution of 6 per cent in 1933 and 2.5 per cent in the first half of 1934.[62] Although the boycott has been actively propagandized in Great Britain, that country's imports of German goods in the first six months of 1934 were 59.5 million marks greater than in the same period the year before.[63] Even the spectacular drop in German sales to the Soviet Union must for the most part be ascribed to a drastic curtailment in the total foreign purchases of the U.S.S.R.[64] In fact, if commerce with the U.S.S.R. were excluded, the development of German export trade would be found to be quite similar to that of other countries which have not devalued their currencies.[65]

REGIMENTATION OF IMPORTS

While the German government was unable to check the fall in exports, imports continued to rise, owing chiefly to increased need for raw materials. In volume Germany imported 10 per cent more raw materials and half-finished goods in 1933 than in 1932, and 16.9 per cent more in the first half of 1934 than in the corresponding period of the preceding year.[66] In 1933 price declines offset the increase in volume, but in the first six months of 1934 the value rose by 201.4 million marks, or 17 per cent.[67] Germany has been accused abroad of using at least part of these raw materials for rearmament and of importing unnecessarily large quantities in an effort to prove that it lacked the foreign exchange with which to pay its debts.[68] In reply to this charge, Germans declare that greater imports have been necessitated by the general economic improvement in the Reich. They do not deny that large reserves of some raw materials have been accumulated, but attribute this to the general fear of a rise in prices and alarm at the prospect of a shortage owing to the dwindling supply of foreign exchange.[69]

The unfavorable development of its trade balance caused the Reich to place imports more and more under direct governmental control. The importation of a large number of agricultural commodities was subjected to the regulation of monopolies without the consent of which these products, whether derived from domestic or foreign sources, can not be marketed.[70] The purpose of this system, however, is more to effect orderly marketing than to restrict imports and conserve foreign exchange. On March 22, 1934 the Cabinet passed a law authorizing the establishment of boards to regulate the purchase, stockage and consumption of all industrial raw materials and half-finished goods.[71] Under this law the purchase abroad of textile raw materials, refined copper, and hides and skins was prohibited until June 1.[72] For these and other materials essential to German industry[73] the government instituted control boards which in turn drafted detailed regulations to insure their economical use. To conserve the supply of raw materials, for example, all textile factories except spinning mills were ordered to reduce their weekly working hours to thirty-six, and the erection of new or extension of old plants was forbidden.[74] The consumption of non-ferrous

59. Prices of agricultural commodities, which rose 23 per cent, accounted for almost the entire increase. Cf. *Weekly Report of the German Institute for Business Research*, Second Supplement, September 12, 1934.

60. J. W. F. Thelwell, *Economic Conditions in Germany to September 1933*, Great Britain, Department of Overseas Trade, (H.M. Stationery Office, London, 1933), p. 38.

61. Cf. Appendix.

62. *Wirtschaft und Statistik*, 1934, Nos. 3 and 14.

63. *Frankfurter Zeitung*, August 26, 1934. For confirmation of the belief that the anti-German boycott has affected German trade but little, cf. Joachim Haniel, "Boykott," *Das neue Tage-buch*, June 9, 1934 (an emigré publication).

64. From 1932 to 1933 German exports to the U.S.S.R. dropped 55 per cent—from 625.8 to 282.2 million marks—but the Soviet Union's total foreign purchases fell 50 per cent; and in the first half of 1934, as compared with the same period the year before, its imports from Germany shrank from 173.5 to 36 million marks, while its total imports declined from 186 to 111 million gold rubles. Cf. *Frankfurter Zeitung*, August 26 and September 16, 1934.

65. German monthly exports in 1933 were 15 per cent below the 1932 level; Belgian, 8; Italian, 12; Dutch, 14; and French, 6. During the first eight months of 1934 German exports averaged 16 per cent below 1933 values; French, 6 (7 months); and Italian, 14 (7 months); while Belgian and Dutch exports retained their volume. These percentages are calculated from trade figures in League of Nations, *Monthly Bulletin of Statistics*, September 1934.

66. *Wirtschaft und Statistik*, 1934, Nos. 3 and 14.

67. Cf. Appendix.

68. For instance, in a note transmitted to the German chargé d'affaires in Washington on June 27, Secretary of State Cordell Hull remarked: "It is widely believed that during recent months German foreign purchases of material susceptible of military use have been extensive and financed out of available exchange resources. To the extent that this may have taken place, the ability to meet external obligations would thereby have been reduced." Cf. Department of State, *Press Releases*, June 30, 1934, cited, p. 447.

69. Reichskreditgesellschaft, *Germany's Economic Development during the First Half of the Year 1934*, p. 39.

70. *Ibid.*, p. 21. Among the commodities so regulated are oil seeds and oil cake, lard, bacon, eggs, animals and meats, plant fats and dairy products.

71. *Gesetz über den Verkehr mit industriellen Rohstoffen und Halbfabrikaten*, Hoche, *Gesetzgebung*, cited, VII, p. 251-2. This law was extended by decree of July 13 to all industrial products.

72. Decrees of March 24 and 26, Hoche, *Gesetzgebung*, cited, VII, p. 252-4.

73. Including wool, cotton, bast fibers (flax, hemp and jute), non-ferrous metals, hides and skins, rubber, industrial fats, iron and steel, and cotton yarn. Cf. decrees of March 26, April 9, May 9, July 6 and August 13 and 18, Hoche, *Gesetzgebung*, cited, VII, p. 254-60, VIII, p. 189, and IX, p. 223-5.

74. Cf. *Faserstoffverordnung*, July 19, 1934, Hoche, *Gesetzgebung*, IX, p. 229-36. Exceptions to the reduction in hours were granted for the execution of export orders. In August 1934 the textile industry was reported to be still working more than 41 hours, as compared with about 45 hours in June. Cf. *Weekly Report of the German Institute for Business Research*, October 3, 1934.

metals was fixed at the quantity used during the first quarter of 1934, and their employment in the manufacture of a number of products was prohibited.[75] Imports were generally subjected to licensing and the accumulation of stocks limited to three months' requirements. A commissioner for raw materials was named on June 30 to coordinate the activities of the various boards and explore the possibilities of replacing foreign with domestic materials. In this way German industry was forced more and more into a straight jacket of bureaucratic regulations. Imports of raw materials were gradually reduced from 253 million marks in April 1934 to 195 million in August.[76]

Foreign exchange restrictions were also tightened. After July 1931 foreign exchange had been allotted to importers on the basis of amounts used in some specified period in the past. During 1933 quotas averaged 50 per cent of basic requirements in 1930-31 and in the next year they were repeatedly and drastically reduced. For March the quota was fixed at 45 per cent, for April at 35, for May at 25, until finally in August the amount was but 5 per cent. At the same time limitations were placed on the utilization of short-term acceptance credits which are used to finance imports but must subsequently be reimbursed in foreign exchange. Starting with an initial reduction of 30 per cent in April, their use was progressively curtailed, until in August the utilization of only 10 per cent of the former volume was permitted. That these restrictions proved ineffective was due to a variety of causes. First of all, no limitation had been placed on the accumulation of unpaid commercial balances abroad. Unpaid British accounts, for instance, are said to have totaled £1,750,000[77] by September 1934, and German importers had piled up such large debts with Lancashire cotton spinners that the latter decided in August to suspend the further export of yarn to Germany until they had been paid.[78] Secondly, so many exceptions had been made that foreign exchange quotas in the end applied only to a few non-essential imports. Not only were raw materials subject to control boards exempt, but trade with almost all European and a few Latin-American countries was independently regulated by so-called clearing agreements.

The earliest of these clearing agreements were negotiated in 1932 with countries in Central and Southeastern Europe which, like Germany, had been forced to adopt foreign exchange restrictions. They established special accounts in the central bank of each state, into which payments for imports had to be made and out of which the claims of exporters were met. In this way the use of foreign exchange was obviated, except for the transfer of any balance which might be left standing to the credit of one of the two banks at the end of a predetermined period. Another type of agreement was more or less forced on Germany by Western and Northern European states which, owing to the fact that they bought more from the Reich than they sold, could threaten to withhold payment for the import surplus unless their exports were excepted from exchange restrictions. Under these agreements German firms were permitted to import goods in excess of their foreign exchange quotas by paying the sales price into the Reichsbank which then credited the amount to the central bank of the exporting country. The latter was allowed to sell its mark balances for the payment of commercial debts owed to Germans. A considerable volume of trade was conducted under this system, payments into the special Reichsbank account rising from 68 million marks in March 1934 to 130 million in July.[79] Recently a number of exchange agreements, notably those with Switzerland, France, Sweden, Italy and the Netherlands, were replaced by arrangements providing for the complete clearance of all export and import accounts, as well as the payment in part or whole of German debt obligations.[80]

In a final effort to unify and tighten the controls already in force, and to secure a powerful bargaining weapon in commercial negotiations, the Reich on September 24 inaugurated an entirely new system of import supervision.[81] Payments for foreign products are now permitted only when the importer, prior to each importation, has secured a foreign exchange certificate from one of the twenty-five boards established to supervise the entire import trade. In this way the foreign exporter is assured that his goods will be paid for promptly, and the accumu-

75. "Deutsche Rohstoffprobleme," *Frankfurter Zeitung*, September 9, 1934; also "Metall-Ersparnis," *ibid.*, September 20, 1934.

76. Cf. Appendix. A part of this decrease was probably seasonal.

77. *Frankfurter Zeitung*, September 19, 1934.

78. *Ibid.*, August 8, 1934.

79. Cf. Speech by Dr. Schacht at the Leipzig Fair, *Frankfurter Zeitung*, August 27, 1934.

80. In the Swiss agreement, for example, it was provided that the sums accumulating each month in the Swiss National Bank out of payments for imports from Germany were to be used to pay (1) for Swiss exports to Germany, (2) travel expense of Germans in Switzerland, and (3) interest on long-term and medium-term debts owed to Swiss nationals. From the balance, five million Swiss francs were to be placed at the disposal of the Reichsbank, six million made available for the payment of goods imported into Germany via Switzerland but not manufactured there, and the remainder transferred to the Reichsbank.

A complete tabular analysis of all clearing and exchange agreements concluded since the middle of 1934 may be found in the *Frankfurter Zeitung*, September 30, 1934. Cf. also "Von Sonderabkommen zu Clearingvertragen" and "Verdichtung des Verrechnungsnetzes," *ibid.*, July 15 and August 19, 1934.

81. For a description of this system, first announced by Dr. Schacht in a speech at the Leipzig Fair on August 25, cf. *Frankfurter Zeitung*, September 9, 12, 13 and 19, 1934.

lation of unsettled commercial accounts abroad will be prevented. Goods may be imported without exchange certificates, but in such cases the seller must realize that he risks receiving no payment for an indefinite period. The boards administering the system can give preference to the most essential imports and purchases providing favorable credit terms. They can direct German import trade to countries offering concessions to German exports, and create facilities for the conclusion of barter agreements.

THE FUTURE—ISOLATION OR COOPERATION?

The concentration of power over all imports in the hands of the government demonstrates that Germany's economic relations with foreign countries have entered a most critical stage. In theory the Reich has two avenues of escape from its present dilemma. On the one hand, it might continue reduction of imports and aim at the achievement of the greatest possible self-sufficiency. This would involve indefinite extension of the debt transfer moratorium, culminating perhaps in tacit or open repudiation. Alternatively, it could, in cooperation with foreign countries, embark definitely on a policy of trade expansion based on reciprocal concessions. Such a course would entail gradual resumption of the debt service.

There are many indications that Germany has chosen the first policy. The new import control system tends in that direction, and Dr. Schacht, Chancellor Hitler and other Nazi officials have defiantly declared that the Reich would and could accept the challenge of economic isolation.[82] Strenuous efforts are being made to increase the production of domestic raw materials and develop substitutes for those usually obtained from abroad. Moreover, in a speech at Bad Eilsen on August 30 the president of the Reichsbank foreshadowed the extension of the existing transfer moratorium for several years.[83] Unrelenting pursuit of this course would bring hardships. As a country relatively poor in raw materials Germany can scarcely dispense with all imports. Greater utilization of domestic sources of supply and development of substitutes require time and, above all, money. Costs of production would be increased and Germany's capacity to export further impaired. To the Germans economic isolation would mean greatly lowered standards of living; to foreigners, the loss of a large and profitable market and the ultimate cancellation of all debt claims.

Official acts and statements have, however, been marked by numerous contradictions. While announcing the need for a further moratorium, Dr. Schacht also pleaded for cooperation in reviving international trade. According to Foreign Minister von Neurath, no member of the government believes "that Germany should or could be isolated economically from the rest of the world."[84] Now that German agriculture has been reorganized even Dr. R. W. Darré, the Minister of Food and Agriculture, has expressed readiness to accept more farm products from abroad in return for concessions to German exports.[85] These protestations have been given concrete expression in commercial treaties negotiated with the Netherlands, Denmark, Yugoslavia and France, and in the termination of the prolonged trade war with Poland. Through these and other agreements the Germans hope ultimately to develop a regional European economy based on reciprocity and centering about the Reich.[86] In line with this policy is the action taken by Germany on October 13, 1934 to terminate the treaty provisions which oblige it to accord the United States unconditional most-favored-nation treatment.[87] At the same time the German government denies any intention of neglecting trade relations with overseas countries. It has sent a trade delegation to South America and is seeking—so far unsuccessfully—to open negotiations for a new commercial treaty with the United States.

The adoption of a policy of trade expansion and the resumption of debt payments would be greatly facilitated by the cooperation of other countries. The Reich is not likely to relax or abandon existing import restrictions unless foreign governments agree in return to create a definitely larger market for German products. Even if German trade were to expand gradually on the basis of a cooperative effort with other countries, some time might elapse before Germany would recover its full capacity to transfer debt payments. Meanwhile foreign creditors might be induced to concede some reduction in interest rates, particularly in view of the fact that the latter, measured in purchasing power, are now higher than at the time the loans were contracted.[88] No concessions are likely to be

82. Cf. Dr. Schacht's speech at the Leipzig Fair, cited; Hitler's address at Hamburg on August 17, *Völkischer Beobachter*, August 18, 1934, and at Coblenz on August 26, *ibid.*, August 28, 1934.

83. *Frankfurter Zeitung*, August 31, 1934.

84. *Frankfurter Zeitung*, April 15, 1934.

85. Speech of April 22, 1934, *Frankfurter Zeitung*, April 23.

86. Cf. Speech of Dr. Hans E. Posse, secretary of state in the Ministry of Economics, before the *Mitteleuropäischer Handelstag*, reported in *Der deutsche Volkswirt*, December 15, 1933, p. 458-9.

87. *New York Times*, October 14, 1934.

88. According to the German Institute for Business Research, the real interest on Germany's bonded indebtedness, expressed in purchasing power of 1928, amounted on September 30, 1933 to 7.6, 7.4, 10.3, 8.2, 7.5 and 6.3 per cent for the parts issued in American, British, Dutch, Swiss, French and Swedish currency respectively. Cf. *Weekly Report*, Supplement, July 11, 1934.

forthcoming, however, unless the creditors are convinced that Germany is fully determined to discharge its debt obligations. The repeated efforts of Dr. Schacht to prove that foreign loans were actually used to pay reparations[89] have given rise to fear that the German government may ultimately seek to recoup past reparation payments by cancelling the claims of private individuals who made bona fide investments in Germany. As long as this fear is not allayed, all German overtures on the debt question will be viewed with suspicion.

The apprehensions of Germany's creditors are indicative of the obstacles that must be overcome before genuine economic cooperation between the Reich and other countries is possible. The outside world remains unconvinced that the Nazi régime is willing to abandon the ideal of autarchy or renounce any of those policies which have aroused so much antagonism abroad. Nor is the distrust of Germany's goodwill likely to disappear so long as Nazi references to foreign relations continue to be characterized by a belligerent and defiant spirit.

APPENDIX

Table I

GERMAN FOREIGN TRADE*
(in million Reichsmarks)

	IMPORTS				EXPORTS				
Period	*Total*	*Food*	*Raw Materials*	*Manufactured Goods*	*Total*	*Food*	*Raw Materials*	*Manufactured Goods*	*Imp. Surplus — Exp. Surplus +*
1928	14001	4333	7218	2450	12276	642	2750	8884	—1725
1929	13447	3973	7205	2269	13483	724	2926	9833	+36
1930	10393	3087	5508	1798	12036	548	2450	9038	+137
1931	6727	2024	3478	1225	9599	406	1813	7380	+2872
1932	4667	1528	2412	727	5739	218	1032	4489	+1072
1933	4203	1113	2420	670	4871	181	903	3787	+668
1933–1st half	2087	553	1193	363	2378	76	442	1855	+291
1934–1st half	2302	494	1426	362	2086	71	407	1605	—214
1934 Jan.	372	89	225	56	350	13	78	259	—22
Feb.	378	79	238	57	343	12	71	260	—35
Mar.	398	88	245	62	401	13	72	315	+3
Apr.	398	79	253	63	316	10	66	240	—82
May	380	76	240	61	337	11	61	265	—42
June	375	84	224	64	339	12	60	267	—36
July	363	99	199	62	321	9	62	250	—42
Aug.	342	81	195	64	334	7	64	262	—8

**Wirtschaft und Statistik* and *Weekly Report of the German Institute for Business Research*, Statistical Supplement, September 19, 1934.

Table II

GERMANY'S FOREIGN INDEBTEDNESS*
(in billions of Reichsmarks)

	July 1931	*Feb. 1933*	*Sept. 1933*	*May† 1934*
Short-term	13.1	8.7	7.4	6.6
of which Standstill	6.3	4.1	3.0	2.6‡
Long-term	10.7	10.3	7.4	7.3
Other	5.9	4.2	4.2	4.0
TOTAL	29.7	23.2	19.0	17.9

**Wirtschaft und Statistik.*
†Figures submitted to Transfer Conference held in Berlin April 27 to May 29, 1934.
‡February 1934.

Table III

REICHSBANK RESERVES

Period End	*Gold and Foreign Exchange (in millions of Reichsmarks)*	*Note Coverage in Per Cent*
1931	1156.3	24.2
1932	919.8	25.8
1933-June	273.5	7.8
1933-Dec.	395.4	10.9
1934-Jan.	382.9	11.1
March	245.1	6.7
May	135.7	3.7
July	78.0	2.1
Sept.	78.9	2.0

89. Cf., for example, his speech at Bad Eilsen, *Frankfurter Zeitung*, August 31, 1934.